November 1990 Monthly Survey November 30, 1990

Surveys of Consumers

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CONSUMER CONFIDENCE REMAINS LOW

Index Posts Small Gain

Following the sharp declines recorded in prior months, consumer sentiment remained largely unchanged in the November 1990 survey. Among all families, the Index of Consumer Sentiment stood at 66.0 in the November survey, insignificantly above the 63.9 recorded one month earlier.

Rather than an improvement, the small November uptick simply represents a halt to the very rapid declines. Repeated declines of the size recorded during the past few months could not have been expected to continue, as some of the sentiment measures had already neared record lows.

The entire small gain was recorded among lower income families, as the Index of Consumer Sentiment for families with incomes of $30,000 or more remained at 69.4 in November, unchanged from October.

The small change was shared by residents of all regions. Among residents of the Northeast, the Index of Consumer Sentiment rose to 63.9 in November from 59.8 in October; among those living in the North Central region the Index rose to 67.2 from 63.6; among Southern residents it rose to 65.2 from 64.5; and among those residing in the Western region, the Index rose to 68.3 in November from 67.6 in October.

Leading Indicator

The Index of Consumer Expectations was 52.8 in the November 1990 survey, up slightly from the 50.9 recorded one month earlier, but still well below the 84.3 recorded one year earlier.

Patterns of Cyclical Changes: Uneven Declines Across Measures

During the past cycle, the Index of Consumer Sentiment has ranged from a low of 51.7, recorded in May of 1980, to a high of 101.0 recorded in March of 1984. Of the 49.3 Index-point improvement from trough to peak, the Index has thus far declined by 35 Index-points--for a loss of about 71% of that improvement. Expectations of future economic conditions were responsible for the largest part of the decline in the Index, rather than evaluations of current economic conditions.

The Index of Consumer Expectations reached its last lowpoint of 44.2 in July of 1979 and a peak of 97.7 in March of 1984. By November 1990, it had lost 44.9 of the 53.5 Index-point change, or about 84% of the cyclical increase. The Index of Current Economic Conditions ranged from a trough of 61.7 in May of 1980 to a peak of 113.3 in June of 1986, for a total change of 51.6 Index-points. By November 1990, it lost 26.6 Index-points, or just about half its cyclical gain.

The smaller decline recorded thus far in evaluation of current economic conditions does mirror the pattern of the last cyclical decline: the lowpoint in the Expectations Index was reached 10 months before the lowpoint in the Index of Current Economic Conditions.

As shown in the table, most of the decline was due to the responses on the two questions concerning expected prospects for the economy, rather than from the questions on personal finances or buying conditions. Indeed, consumers' views of prospects for the general economy over both the near and longer terms are now very close to the last cyclical lowpoints. In contrast, the current readings for evaluations of personal finances and buying conditions are near the midpoint of the cyclical ranges.

It is quite likely that the cyclical lowpoint for the measures of personal financial evaluations and buying conditions will not reach as low a level as recorded prior to the recessions at the start of the 1980s. The driving force behind those declines involved high and rising inflation rates. At that time, nearly half of all consumers cited diminished living standards due to inflation, twice as many as the November survey recorded. Importantly, the recent increase in inflation has been viewed more as a temporary phenomena. Moreover, current buying attitudes continue to receive substantial support from the availability of price discounts and rebates.

INDEX COMPONENTS	Favorable Responses	Unfavorable Responses	Relative (Fav-Unfav+100)
Current Personal Finances			
Cyclical range	24% - 50%	20% - 51%	73 - 127
November 1990	35%	38%	97
Expected Personal Finances			
Cyclical range	20% - 45%	6% - 31%	91 - 137
November 1990	31%	19%	112
12 Month Business Conditions			
Cyclical range	11% - 73%	19% - 82%	31 - 154
November 1990	15%	74%	41
5 Year Business Conditions			
Cyclical range	10% - 47%	31% - 72%	40 - 116
November 1990	18%	62%	56
Buying Conditions for Durables			
Cyclical range	35% - 81%	11% - 58%	77 - 170
November 1990	61%	34%	127

National Economy Viewed in Recession

The November 1990 survey recorded very unfavorable assessments of current and expected conditions in the national economy.

Among all families, 75 percent thought the economy had worsened during the past year, just ahead of the 74 percent recorded one month earlier, and more than twice the 36 percent recorded one year earlier.

For the year ahead, 74 percent expected bad times financially in the economy as a whole in the November 1990 survey, up from 71 percent one month earlier, and twice the 34 percent recorded one year earlier. Just 15 percent of all families in the November 1990 survey expected good times financially in the economy during the year ahead.

Over the next five years, 62 percent expected bad times financially in the economy in the November 1990 survey. Although slightly below the 65 percent recorded one month earlier, it remains substantially higher than the 46 percent recorded one year earlier.

Rising Unemployment Chief Concern

The sharp rise in unemployment expectations recorded in October was confirmed in the November survey. The national unemployment rate was expected to increase by 64 percent of all families in the November 1990 survey, up from 62 percent one month earlier and just 44 percent two months ago. Just 5 percent of all families expected the unemployment to decline in the November 1990 survey.

Interest Rate Expectations Remain Unchanged

Interest rates were expected to increase by 57 percent of all families in the November 1990 survey, unchanged from October, and just barely above the 52 percent recorded last November. Interest rate declines were expected by 21 percent in November 1990, up from 17 percent one month earlier and 18 percent one year earlier.

Inflation Fears Ease

The annual rate of inflation expected by consumers fell to 5.7% in the November 1990 survey from 6.1% one month earlier. This was still well above the 4.7% recorded just prior to the invasion of Kuwait and in the November 1989 survey.

Personal Finances Posts Small Improvement

The proportion of families that reported that their financial situation had improved during the past year rose to 35 percent in November from 30 percent in October. Most of the increase came from the proportion that reported no change in their financial situation, as the proportion that reported being worse off financially in November stood at 38 percent, just below the 39 percent recorded one month earlier, and well above the 26 percent recorded one year earlier. Overall, the October and November readings were less favorable than any other time since early in 1983.

The small November improvement was due to more frequent reports of income increase. Increases in family incomes during the past year were reported by 30 percent of all families in November, up from 24 percent in October, while reports of declines in family incomes were reported by 19 percent in November, unchanged from October. Complaints about rising prices diminishing living standards were voiced by 23 percent of all families, just below the 24 percent recorded one month earlier, and nearly twice the 12 percent recorded in July.

For the year ahead, 31 percent of all families expected to be better off financially. Although this was marginally above the 29 percent recorded one month earlier, it remained well below the 40 percent recorded one year earlier. The proportion of families that expected to be worse off financially during the year ahead fell to 19 percent in the

November 1990 survey from 24 percent one month earlier, but still well above the 10 percent recorded a year earlier.

Buying Attitudes

Buying attitudes remained largely unchanged in the November 1990 survey from one month earlier. Overall, favorable buying attitudes have posted 12-15 percentage point declines since the invasion of Kuwait. Compared with the sharp declines in prospects for the general economy, these more modest declines reflect offsetting trends. Families continued to report the availability of lower prices and discounts which helped to maintain favorable buying attitudes. Offsetting this support has been consumers' apprehensions about the future course of the economy, which have cast doubt on the advisability of making major purchases.

Durables. Attitudes toward buying conditions for furniture, appliances, and home electronic goods remained largely unchanged in November from one month earlier. Among all families, 61 percent held favorable attitudes toward buying conditions for large household durables, up from 58 percent one month earlier, while unfavorable attitudes rose to 34 percent in November from 32 percent in October.

The proportion that mentioned the availability of discounted prices was 27 percent in November, just ahead of the 26 percent recorded in October, while the number that complained about high prices fell to 12 from 16 percent.

Apprehensions about current and future economic prospects continue to be a major reason for the weakness in buying attitudes. Among all families, 21 percent reported these concerns in the November 1990 survey, more than three times the level of one year earlier.

Homes. Home buying attitudes were slightly more positive in November than one month earlier but still lagged behind last year's reading. Among all families, 54 percent rated home buying conditions favorably in November, up from 50 percent in October, but still below the 66 percent recorded in July.

The minor improvement was due to a slight increase in favorable references to mortgage interest rates. The availability of lower mortgage rates was mentioned by 13 percent in November, up from 11 percent in October, while complaints about high mortgage rates fell to 20 from 22 percent.

The availability of lower home prices was reported by 34 percent of all families in the November 1990 survey, unchanged at the all-time record high first recorded one month earlier.

An unfavorable view of home buying conditions was caused by apprehensions about current and expected economic conditions--reported by 22 percent of all families in the November 1990 survey, unchanged from October.

Vehicles. The proportion holding favorable vehicle buying attitudes remained at 50 percent in the November, unchanged from October, while the proportion that expressed unfavorable opinions rose slightly to 45 from 42 percent.

The availability of price discounts on new vehicles were mentioned by 34 percent of all families in the November 1990 survey, just below the 35 percent recorded one month earlier. Complaints about rising prices remained unchanged at 19 percent in both the October and November surveys.

The impact of rising gasoline prices diminished somewhat in the November 1990 survey, with the proportion mentioning this factor falling to 7 from 12 percent one month earlier.

More generalized concerns about current and future economic prospects continue to play an important factor in unfavorable car buying attitudes--reported by 16 percent of all families in November, just below the 18 percent recorded in October.

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The November 1990 survey included 501 completed interviews conducted between October 27 and November 21, 1990.